

Approved: February 5, 2010

Date

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT AND TOURISM COMMITTEE

The meeting was called to order by Chairman Lana Gordon at 3:30 p.m. on February 1, 2010, in Room 152-S of the Capitol.

All members were present except:

Representative Owen Donohoe- excused  
Representative Geraldine Flaharty- excused  
Representative Sharon Schwartz- excused  
Representative Joe Seiwert- excused  
Representative Valdenia Winn- excused

Committee staff present:

Doug Taylor, Office of the Revisor of Statutes  
Reed Holwegner, Kansas Legislative Research Department  
Brandon Riffel, Kansas Legislative Research Department  
Ann Deitcher, Committee Assistant

Conferees appearing before the Committee:

Kevin Carr, Interim CEO, Kansas Technology Enterprise Corp.

Representative Benlon made the motion requesting a bill that would require people to not have plastic covering over their automobile license plates.

The motion was seconded by Representative Hill and passed on a voice vote.

Reed Holwegner presented a report of the Special Committee on Kansas Technology Enterprise Corporation. (Attachment 1).

Telling the Committee the report concluded that the Kansas Technology Enterprise Corporation (KTEC) was a viable entity to the State of Kansas, he said that it serves a specific purpose that the Commerce Department and other economic development entities didn't. It is felt that KTEC needs to remain a stand-alone state agency.

Looking at the duplication of efforts for the state's economic development policies and programs, the Special Committee found there were two areas that KTEC was duplicating efforts with the Kansas Bioscience Authority. KTEC has agreed that by the start of the next fiscal year, the agency will begin to vacate direct investments in the bioscience arena and end any duplication where possible.

The Special Committee felt there were many needs for economic development in the Kansas, and KTEC needed to fully address it's investment strategy.

In addition to the steps outlined by the agency, the Special Committee recommended that KTEC further review its Technology Based Economic Development (TBED) investment strategy by considering the following:

- Build world-class discovery platforms to simulate across Kansas the "knowledge spillover," collaboration, and increased opportunity awareness that comes from urban density.
- Link state research and development support more tightly to the acquisition of federal research and development funding and strive to increase the number of Kansas-based researchers competing for federal funding related to scientific research and engineering.
- Maximize the resources directed to building the research infrastructure and collaborative business environment related to technology-based economic development and minimize the resources directed to investments in individual business ventures.

CONTINUATION SHEET

Minutes of the House Economic Development and Tourism Committee at 3:30 p.m. on February 1, 2010, in Room 152-S of the Capitol.

- Leverage the network of centers of excellence (business incubators) to help build more volume and critical mass for economic expansion.

KTEC's recent actions are recognized as a work in progress. The Special Committee recommended that KTEC continue to report its progress on an annual basis to the Senate Committees on Commerce and Ways and Means; the House Committees on Economic Development and Appropriations; and the Joint Committee on Economic Development.

Questions and answers followed.

The meeting was adjourned at 4:30 p.m.

The next meeting is scheduled for Wednesday, February 3, 2010.

**Report of the  
Special Committee on Kansas  
Technology Enterprise Corporation  
to the  
2010 Kansas Legislature**

**CHAIRPERSON:** Senator David Wysong

**VICE-CHAIRPERSON:** Representative Lana Gordon

**OTHER MEMBERS** Senators Pete Brungardt, Carolyn McGinn, and Tom Holland; and Representatives Lisa Benlon, Richard Carlson, Pete DeGraaf, Doug Gatewood, John Grange, Dan Kerschen, Marvin Kleeb, and Jerry Williams

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Economic Development & Tourism

Date: 2/1/10

Attachment # 1-1

# Special Committee on Kansas Technology Enterprise Corporation

## REPORT

### CONCLUSIONS AND RECOMMENDATIONS

The Special Committee concludes that the Kansas Technology Enterprise Corporation (KTEC) is a viable entity to the State of Kansas and serves a specific purpose that the Department of Commerce and other economic development entities do not. KTEC needs to remain a stand-alone state agency.

Due to the 2009 evaluation report performed by Kansas, Inc., KTEC took major steps in restructuring its own leadership, and its board of directors made significant operational changes. The Special Committee recommends that the KTEC Board remain informed and engaged in all KTEC activities.

The 2009 evaluation report made several recommendations. KTEC representatives detailed their acceptance of these recommendations and have begun to implement changes, as listed in this report. The Special Committee commends KTEC's Board and revised leadership for implementing these recommendations.

The Special Committee looked at duplication of efforts for the state's economic development policies and programs. It found there were two areas that KTEC was duplicating efforts with the Kansas Bioscience Authority. KTEC has agreed that by the start of the next fiscal year, the agency will begin to vacate direct investments in the bioscience arena and end any duplication where possible.

There are many needs for economic development in the State of Kansas. KTEC needs to address its investment strategy fully. In addition to the steps outlined by the agency, the Special Committee recommends that KTEC further review its technology based economic development (TBED) investment strategy by considering the following:

- Build world-class discovery platforms to simulate across Kansas the "knowledge spillover," collaboration, and increased opportunity awareness that comes from urban density.
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- Maximize the resources directed to building the research infrastructure and collaborative business environment related to technology-based economic development and minimize the resources directed to investments in individual business ventures.

- Leverage the network of centers of excellence (business incubators) to help build more volume and more critical mass for economic expansion.

KTEC's recent actions are recognized as a work in progress. The Special Committee recommends that KTEC continue to report its progress on an annual basis to the Senate Committees on Commerce and Ways and Means; the House Committees on Economic Development and Appropriations; and the Joint Committee on Economic Development.

The Special Committee recommends that the state's policies should consider and help foster the growth of jobs and economic development. To that end, the Special Committee recommends that the Legislature reconsider its current policy on the Angel Tax Credit and the 10.0 percent "carry forward" position. This cap discourages investment when it is most needed.

Finally, the Special Committee expresses its gratitude to Kansas, Inc., for its evaluation work and presentations.

***Proposed Legislation:*** None

### **BACKGROUND**

The Special Committee on the Kansas Technology Enterprise Corporation (KTEC) was created by the Legislative Coordinating Council to review the most efficient structure to create and grow Kansas enterprises through technological innovation. The Special Committee was charged to review the recent evaluation of KTEC and to study the agency's current operations and funding.

### **COMMITTEE ACTIVITIES**

The Joint Committee met on October 7 - 8, 2009, and heard testimony from evaluators, KTEC Board and staff members, entrepreneurs, certain state officials, and members of the public.

### **EVALUATION**

Kansas, Inc., is statutorily charged to evaluate the state's economic development programs and policies. The KTEC evaluation was released publicly on April 8, 2009, and attempted to address the following questions:

- Is KTEC adhering to its statutory obligations;
- Has KTEC initiated its statutorily defined programs and initiatives; and
- What has been the outcome of the KTEC investments?

The firm Thomas P. Miller and Associates, headquartered in Greenfield, Indiana, performed the KTEC evaluation. A representative from the firm explained that after interviewing KTEC stakeholders and analyzing the agency's annual reports and other economic data, the following conclusions and recommendations were reached:

- KTEC should continue to identify unique technology clusters in Kansas around which the innovations economy can be built.
- KTEC needs to establish a clear and uniform set of metrics, collect and maintain information that supports these metrics, and regularly report progress. Metrics should reflect outcomes rather than activities.

- In order to better serve stakeholders and foster a more entrepreneurial culture in Kansas, KTEC should post all annual reports, schedules, minutes, and other documents online.
- KTEC needs mechanisms in place to assure that the Board of Directors is fulfilling its fiduciary role and is operating in accordance to statute.
- Provide thorough and adequate information to the Board well in advance of Board meetings.
- Maintain the integrity of the Board nomination and selection process.
- Build the Board's capacity to ensure that the entrepreneurs, technology experts, intellectual property attorneys, and financial experts are represented on the Board.
- Work with existing companies to identify "orphan" technologies and identify persons that could develop those technologies to the proof-of-concept stage.
- Leverage existing entrepreneurship programs and consider extending the PIPELINE Program to meet the needs of entrepreneurs at different stages of development.

#### **KTEC RESPONSE TO EVALUATION**

KTEC's Board of Directors and staff prefaced their remarks by explaining the agency's budget and current operations. KTEC expressed its appreciation in the positive recognitions contained in the evaluation. Since the release of that report, the KTEC Board and staff began a process to address the identified issues. Those steps include:

- KTEC formed a strategic planning task force in June 2009 that is comprised of Board members and staff. The task force identified

cluster development as one of four areas for the agency to focus. KTEC has started to evaluate resources within Kansas to identify the technology clusters that should be supported. In September, KTEC started to evaluate the centers of excellence (business incubators) to determine how each center will be aligned with KTEC in the future.

- KTEC recognizes there is room for improvement in reporting metrics to the Board. To that end, metrics for each program area are to be annually reviewed in detail by the Board.
- Since April 2009, KTEC has posted all annual reports, the last three years of minutes, and future schedules on the agency's website. KTEC and the other state economic development agencies have collaborated to develop a matrix that should improve the understanding of how all agencies work together to provide economic development. By looking externally, KTEC identified areas of duplication with the Kansas Bioscience Authority. KTEC will begin to cease its duplication of effort by the start of the next fiscal year.
- KTEC surveyed all Board members prior to the June meeting to ensure their needs were understood and being met. Deficiencies that were raised were addressed prior to the Board's meeting in September 2009. From now on, the Board will be surveyed biennially to discern its decision-making needs. KTEC developed an intranet website that Board members can access. Board members now sit on each KTEC committee.
- All KTEC materials that require the Board's approval are posted to the intranet site a minimum of two days in advance of each meeting.

- In regard to the Board nomination process, KTEC notes that the process is controlled by the Legislature and the Governor, and no specific problems relating to it were cited in the report.
- The KTEC Board is comprised of members with the expertise specified by statute. The charter of KTEC's Investment Committee was amended in June to include term limits for members. Five new members have been added to that committee since May 2009. The current committee includes four Board members.
- In regard to "orphan" technology identification, KTEC's Proof of Concept Program has been in existence for two years. KTEC has funded projects at state universities totaling over \$100,000.
- KTEC will continue to evaluate services that enhance entrepreneur development. PIPELINE has begun to extend its offering to other entrepreneurs and high school students.

#### **TECHNOLOGY BASED ECONOMIC DEVELOPMENT (TBED)**

An economist from the Center for Applied Economics at the KU School of Business briefed the Special Committee on technology based economic development (TBED). TBED is primarily an urban phenomenon where both the volume of entrepreneurial activities and population density matter. Kansas has a disadvantage in both categories except for in the Kansas City and Wichita areas. At any one time, 10.0 percent to 15.0 percent of businesses in Kansas are new, and about the same percentage of businesses are dying. It is unclear when or how TBED initiatives will work, but this economic churning process—over time—will lead to increased productivity that then will build societal prosperity. The challenge is to be willing to let go of old jobs and industries in order to

create new economic activity. Universities can simulate the necessary entrepreneurial activities and population densities. It was suggested that the state's goal should be to grow out of the federal Experimental Program to Stimulate Competitive Research (EPSCoR) and be in the top half of research states.

The observation was made that while KTEC has had some successes, the agency has taken a role of picking winners and losers, similar to how a venture capitalist firm would operate. TBED success should be measured in terms of overall productivity, capital investment (especially in manufacturing), the gross number of business starts, federal research funding, and private industry research and development funding.

#### **CONCLUSIONS AND RECOMMENDATIONS**

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